

CITY OF EDGEWOOD

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2006

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CITY OF EDGEWOOD  
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	(Before January, 2006)	
Neil Sherman	Mayor	Jan. 2006
Linda Rowell	Mayor Pro tem	Jan. 2008
Brad Perrinjaquet	Council Member	Jan. 2008
Marjory Bushaw	Council Member	Jan. 2006
Jay Degenford	Council Member	Jan. 2006
Bruce West	Council Member	Jan. 2006
	(After January, 2006)	
Neil Sherman	Mayor	Jan. 2008
Linda Rowell	Mayor Pro tem	Jan. 2008
Brad Perrinjaquet	Council Member	Jan. 2008
Bruce West	Council Member	Jan. 2010
Jay Degenford	Council Member	Jan. 2010
Bruce Hemann	Council Member	Jan. 2010
Cindy Vorwald	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Indefinite

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Edgewood's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances of the governmental and proprietary funds at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance, as discussed in the preceding paragraph, the financial statements referred to above

present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2006 on our consideration of the City of Edgewood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Edgewood's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

November 15, 2006

*Dietz, Donald & Company*  
Dietz, Donald and Company, CPA's  
FEIN 42-1172392



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Edgewood provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit once every four years because our population is less than 2,000 people. Therefore, any financial information presented herein for the fiscal year ended June 30, 2005 has not been audited.

### **2006 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased by 34.1% or approximately \$ 251,000, from fiscal 2005 to fiscal 2006. Contributions increased approximately \$ 115,000, loan proceeds increased over \$ 40,000 and state grants increased approximately \$ 75,000.

Disbursements of the City's governmental activities increased 63.0%, or approximately \$ 436,000, in fiscal 2006 from fiscal 2005. Culture and recreation, community and economic development, and capital projects disbursements increased approximately \$ 45,000, \$ 237,000 and \$ 157,000 respectively.

The City's total cash basis net assets decreased 32%, or approximately \$ 193,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$ 142,000 and the assets of the business type activities decreased by approximately \$ 51,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

#### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

#### **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

##### **Government-wide Financial Statement**

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets

may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

#### Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The government fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 468,000 to \$ 326,000. The analysis that follows focuses on the changes in cash balances for governmental activities.



Changes in Cash Basis Net Assets of Governmental Activities  
(Expressed in Thousands)

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 103	122
Operating grants, contributions and restricted interest	104	77
Capital grants, contributions, and restricted interest	265	80
General receipts:		
Property tax	337	339
Local option sales tax	57	57
Grants and contributions not restricted to specific purposes	0	2
Unrestricted interest on investments	12	8
Loan proceeds	122	35
Other general receipts	25	15
Transfers, net	(39)	0
Total receipts and transfers	<u>986</u>	<u>735</u>
Disbursements:		
Public safety	95	104
Public works	130	136
Health and social services	1	1
Culture and recreation	117	71
Community and economic development	447	208
General government	72	67
Debt service	47	43
Capital projects	219	62
Total disbursements	<u>1,128</u>	<u>692</u>
Increase (decrease) in cash basis assets	(142)	43
Cash basis net assets beginning of year	<u>468</u>	<u>425</u>
Cash basis net assets end of year	<u>\$ 326</u>	<u>468</u>

The City's total receipts for governmental activities increased by 34.1%, or \$ 251,000. The total cost of all programs and services increased by approximately \$ 436,000 or 63.0%, with no new programs added this year. The significant increase in receipts was primarily the result of receiving \$ 115,000 in grants and contributions for the Community Dreams Project and an additional \$ 75,000 in state grants.

The City did not increase property taxes for 2006. Actual property tax receipts decreased by approximately \$ 3,000 from 2005.

The cost of all governmental activities this year was \$ 1.128 million compared to \$ 692,000 last year. However, as shown in the Statement of Activities and Net Assets on page 15 the amount taxpayers ultimately financed for these activities was only \$ 665,000 because some of the cost was paid by those directly benefited from the programs (\$ 103,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 370,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2006 from approximately \$ 279,000 to approximately \$ 472,000, principally due to receiving grant proceeds and contributions to complete the Community Dreams project. The City paid the remaining "public benefit" portion of governmental activities with approximately \$ 394,000 tax (some of which could only be used for certain programs) and other receipts, such as interest and general entitlements.

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Changes in Cash Basis Net Assets of Business Type Activities  
(Expressed in Thousands)

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	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service:		
Water	\$ 88	93
Sewer	99	107
Capital grants, contributions and restricted interest	210	3
General receipts:		
Unrestricted interest on investments	5	2
Bond proceeds	171	0
Other general receipts	3	3
Transfers	39	0
Total receipts and transfers	<u>615</u>	<u>208</u>
Disbursements:		
Water	572	88
Sewer	93	94
Total disbursements	<u>665</u>	<u>182</u>
Increase (decrease) in cash basis assets	(50)	26
Cash basis net assets beginning of year	<u>126</u>	<u>100</u>
Cash basis net assets end of year	<u>\$ 76</u>	<u>126</u>

Total business type activities receipts and transfers for the fiscal year were \$ 615,000 compared to \$ 208,000 last year. This significant increase was due primarily to the receipt of \$ 171,000 in water construction revenue bond proceeds and \$ 210,000 from a Community Development Block Grant. The cash balance decreased by \$ 50,000 as some of the water project was internally financed. Total disbursements for the fiscal year increased by 265% to a total of \$ 665,000. This increase was due to spending \$ 450,000 on the water project in fiscal 2006.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Edgewood completed the year, its governmental funds reported a combined fund balance of \$ 326,402, a decrease of more than \$ 142,000 from last year's total of \$ 468,435. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 25,641 from the prior year to \$ 173,384. The City spent approximately \$ 32,700 less for community and economic development in 2006, the single largest factor contributing to the increased cash balance.

The Road Use Tax Fund cash balance increased by \$ 1,809 to \$ 54,988 during the fiscal year.

The Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$ 66,468, a decrease of \$ 36,037 from the previous year. The decrease was the result of various construction and refurbishing projects within the urban renewal district. The bonds and interest will be redeemed with incremental property tax generated from the increased taxable valuation in the district.

The Local Option Sales Tax Fund decreased by \$ 15,435 to \$ 106,160, as \$ 38,750 was spent on the playground project and \$ 7,500 was spent on the Community Dreams project.

The Community Dreams Fund was established to account for the expenditure of funds for the athletic and recreational facility on the north edge of the City. The fund began the year with a balance of \$ 25,487 and ended the year with a cash balance of \$ 5,476. During the year \$ 218,369 was spent on the Community Dreams project. The project was funded by \$ 115,000 in contributions and \$ 75,000 in state grants.

#### **INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS**

The Water Fund cash balance decreased by \$ 61,174 to \$ 46,036 due primarily to using existing cash balances to finance a portion of the \$ 450,000 water system improvement project.

The Sewer Fund cash balance increased by \$ 10,701 to \$ 29,818.

#### BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 13, 2006 and resulted in an increase in capital disbursements related to costs of approximately \$ 582,500 related to various projects in the City, additional water and sewer expenses of \$ 35,000 and other miscellaneous expenses of \$ 9,870. The second amendment was approved on May 8, 2006, and resulted in an increase in capital disbursements related to costs of approximately \$ 300,000 related to urban renewal projects. These amendments were financed with \$ 115,000 in contributions, \$ 275,000 in federal and state grants, a \$ 100,000 loan and tax increment financing receipts.

#### DEBT ADMINISTRATION

At June 30, 2006, the City had \$ 768,545 in bonds and other long-term debt, compared to \$ 654,714 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2006	2005
General obligation notes	\$ 310	361
Special assessment note	14	21
Urban renewal tax increment financing revenue notes	215	158
Revenue bonds and notes	230	100
Lease purchase contract	0	15
Total	\$ 765	655

Debt increased as a result of issuing revenue notes for a water construction project. In addition, the City issued urban renewal tax increment financing revenue notes for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 324,000 is significantly below its constitutional debt limit of \$ 1.6 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Edgewood's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in Clayton and Delaware Counties has run higher than the State's unemployment rate of 3.4 percent and national rate of 3.9 percent. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$ 1.5 million, a decrease of 31% over the final 2006 budget. A \$ 505,000 decrease in miscellaneous receipts accounted for most of the decrease. Budgeted disbursements are expected to drop by approximately \$ 910,000. Completion of the water improvement and Community Dreams projects enabled Council to decrease the 2007 budget. The City has added no major new programs or initiatives to the 2007 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$ 18,000 by the close of 2007.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Vorwald, City Clerk, 203 West Union, Edgewood, Iowa 52042-0397.

## BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EDGEWOOD  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the Year Ended June 30, 2006

Functions/Programs:	Disbursements	Charges for Service	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 95,318	38,042	16,820	0	(40,456)	0	(40,456)
Public works	130,253	42,098	77,279	0	(10,876)	0	(10,876)
Health and social services	900	0	0	0	(900)	0	(900)
Culture and recreation	116,616	6,992	10,121	12,759	(86,744)	0	(86,744)
Community and economic development	447,171	0	0	192,041	(255,130)	0	(255,130)
General government	71,670	5,453	0	0	(66,217)	0	(66,217)
Debt service	47,419	10,124	0	0	(37,295)	0	(37,295)
Capital projects	218,640	0	0	60,539	(158,101)	0	(158,101)
Total governmental activities	\$ 1,127,987	102,709	104,220	265,339	(655,719)	0	(655,719)
Business type activities							
Water	572,339	88,037	0	210,193	0	(274,109)	(274,109)
Sewer	93,018	98,917	0	0	0	5,899	5,899
Total business type activities	665,357	186,954	0	210,193	0	(268,210)	(268,210)
Total	\$ 1,793,344	289,663	104,220	475,532	(655,719)	(268,210)	(923,929)
General Receipts:							
Property tax levied for:							
General purposes					144,184	0	144,184
Tax increment financing					155,145	0	155,145
Debt service					37,202	0	37,202
Local option sales tax					57,367	0	57,367
Unrestricted interest on investments					12,133	4,548	16,681
Loan and bond proceeds					121,750	171,448	293,198
Miscellaneous					24,927	2,719	27,646
Transfers					(39,022)	39,022	0
Total general receipts and transfers					513,686	217,737	731,423
Change in cash basis net assets					(142,033)	(50,473)	(192,506)
Cash basis net assets beginning of year					468,435	126,327	594,762
Cash basis net assets end of year					\$ 326,402	75,854	402,256
Cash Basis Net Assets							
Restricted:							
Streets					\$ 54,988	0	54,988
Urban renewal purposes					66,468	0	66,468
Debt service					842	0	842
Other purposes					14,779	0	14,779
Unrestricted					189,325	75,854	265,179
Total Cash Basis Net Assets					\$ 326,402	75,854	402,256

See notes to financial statements.

CITY OF EDGEWOOD  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the Year Ended June 30, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
Charges for Service						
Disbursements						
Programs:						
ental Activities:						
ic safety	\$ 95,318	38,042	16,820	0	(40,456)	0
ic works	130,253	42,098	77,279	0	(10,876)	0
th and social services	900	0	0	0	(900)	0
ure and recreation	116,616	6,992	10,121	12,759	(86,744)	0
unity and economic						
elopment	447,171	0	0	192,041	(255,130)	0
ral government	71,670	5,453	0	0	(66,217)	0
service	47,419	10,124	0	0	(37,295)	0
tal projects	218,640	0	0	60,539	(158,101)	0
otal governmental activities	\$ 1,127,987	102,709	104,220	265,339	(655,719)	0
s type activities	572,339	88,037	0	210,193	0	(274,109)
r	93,018	98,917	0	0	0	5,899
otal business type activities	665,357	186,954	0	210,193	0	(268,210)
\$ 1,793,344	289,663	104,220	475,532	(655,719)	(268,210)	(923,929)
Receipts:						
erty tax levied for:						
eneral purposes					144,184	0
ax increment financing					155,145	0
ebt service					37,202	0
l option sales tax					57,367	0
stricted interest on						
estments					12,133	4,548
and bond proceeds					121,750	171,448
ellaneous					24,927	2,719
rs					(39,022)	39,022
eneral receipts and						
ers					513,686	217,737
in cash basis net assets					(142,033)	(50,473)
sis net assets beginning of year					468,435	126,327
sis net assets end of year					\$ 326,402	75,854
sis Net Assets						402,256
stricted:						
treets					\$ 54,988	0
rbal renewal purposes					66,468	0
ebt service					842	0
ther purposes					14,779	0
icted					189,325	75,854
otal Cash Basis Net Assets					\$ 326,402	75,854
						402,256

to financial statements.



CITY OF EDGEWOOD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2006

As of and for the year ended June 30, 2000

	Special Revenue				Capital Project	Other	
	General	Road Use Tax	Urban Renewal Tax	Local Option Sales Tax	Community Dreams	Governmental Funds	Total
Receipts:							
Property tax	\$ 133,493	0	0	0	0	47,893	181,386
Tax increment financing collections	0	0	155,145	0	0	0	155,145
Other city tax	0	0	0	57,367	0	0	57,367
Licenses and permits	2,872	0	0	0	0	0	2,872
Use of money and property	12,133	0	0	0	94	40	12,267
Intergovernmental	26,576	77,279	0	0	75,368	55,129	234,352
Charges for service	86,819	0	0	0	0	0	86,819
Special assessments	0	0	0	0	0	10,124	10,124
Miscellaneous	27,821	0	0	0	115,396	19,677	162,894
Total receipts	289,714	77,279	155,145	57,367	190,858	132,863	903,226
Disbursements:							
Operating:							
Public safety	73,766	0	0	21,552	0	0	95,318
Public works	54,783	75,470	0	0	0	0	130,253
Health and social services	900	0	0	0	0	0	900
Culture and recreation	69,906	0	0	0	0	46,710	116,616
Community and economic development	4,240	0	224,544	0	218,369	18	447,171
General government	58,571	0	0	0	0	13,099	71,670
Debt service	0	0	0	0	0	47,419	47,419
Capital outlay	0	0	0	0	0	218,640	218,640
Total disbursements	262,166	75,470	224,544	21,552	218,369	325,886	1,127,987
Excess (deficiency) of receipts over (under) disbursements	27,548	1,809	(69,399)	35,815	(27,511)	(193,023)	(224,761)
Other financing sources (uses):							
Loan proceeds	0	0	100,000	0	0	21,750	121,750
Operating transfers in	13,145	0	0	0	7,500	77,000	97,645
Operating transfers out	(15,052)	0	(66,638)	(51,250)	0	(3,727)	(136,667)
Total other financing sources (uses)	(1,907)	0	33,362	(51,250)	7,500	95,023	82,728
Net change in cash balances	25,641	1,809	(36,037)	(15,435)	(20,011)	(98,000)	(142,033)
Cash balances beginning of year	147,743	53,179	102,505	121,595	25,487	17,926	468,435
Cash balances end of year	\$ 173,384	\$4,988	\$6,468	\$106,160	\$5,476	\$(80,074)	\$326,402

(continued)

Exhibit B  
(continued)

CITY OF EDGEWOOD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2006

	Special Revenue					Capital Project	Other Nonmaj Governme Funds
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax			
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ 0	0	0	0	0	0	
Unreserved:							
General fund	173,384	0	0	0	0	0	
Special revenue funds	0	54,988	66,468	106,160	0	0	14
Capital projects funds	0	0	0	0	5,476	5,476	(95)
Total cash basis fund balances	\$ 173,384	54,988	66,468	106,160	5,476	5,476	(80)

See notes to financial statements.

CITY OF EDGEWOOD  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 As of and for the Year Ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Use of money and property	\$ 3,565	983	4,548
Charges for service	88,037	98,917	186,954
Total operating receipts	91,602	99,900	191,502
Operating disbursements:			
Business type activities	559,096	57,459	616,555
Excess (deficiency) of operating receipts over (under) operating disbursements	(467,494)	42,441	(425,053)
Non-operating receipts (disbursements)			
Intergovernmental	210,193	0	210,193
Miscellaneous	1,979	740	2,719
Loan proceeds	171,448	0	171,448
Debt service	(13,243)	(35,559)	(48,802)
Total non-operating receipts (disbursements)	370,377	(34,819)	335,558
Excess (deficiency) of receipts over (under) disbursements	(97,117)	7,622	(89,495)
Operating transfers in	35,943	3,079	39,022
Net change in cash balances	(61,174)	10,701	(50,473)
Cash balances beginning of year	107,210	19,117	126,327
Cash balances end of year	\$ 46,036	29,818	75,854
 Cash Basis Fund Balances			
Unreserved	\$ 46,036	29,818	75,854

See notes to financial statements.

City of Edgewood

Notes to Financial Statements

June 30, 2006

(1) **Summary of Significant Accounting Policies**

The City of Edgewood is a political subdivision of the State of Iowa located in Delaware and Clayton Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Edgewood has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Delaware County Solid Waste Commission, Delaware County Economic Development

Commission, Delaware and Clayton County E911 Service Boards and Edgewood Board of Economic Development.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the

general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for the receipt and disbursement of the 1% local option sales tax.

The Capital Project-Community Dreams Fund is used to account for all receipts and disbursements related to the Community Dreams project

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Edgewood maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to prorate application of resources according to percentages in the original grant application.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported

as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating fund (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City. At June 30, 2006, the City had \$ 4,106 invested in certificates of deposit.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Special Assessment Notes		Urban Renewal Tax Increment Financing (TIF) Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 42,443	12,395	7,253	688	27,253	11,052
2008	16,633	10,700	6,509	325	27,580	9,659
2009	17,298	10,035	-	-	53,946	8,231
2010	17,990	9,343	-	-	56,500	5,091
2011	18,710	8,623	-	-	12,500	2,665
2012-2016	105,391	31,276	-	-	37,500	3,998
2017-2021	91,491	6,372	-	-	-	-
Total	\$ 309,956	88,744	13,762	1,013	215,279	40,696

Year Ending June 30,	Revenue		Total	
	Bonds and Notes			
	Principal	Interest	Principal	Interest
2007	43,250	6,886	120,199	31,021
2008	44,850	5,728	95,572	26,412
2009	10,000	4,243	81,244	22,509
2010	10,000	3,943	84,490	18,377
2011	11,000	3,643	42,210	14,931
2012-2016	58,000	13,177	200,891	48,451
2017-2021	52,448	3,924	143,939	10,296
Total	\$ 229,548	41,544	768,545	171,997

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

#### (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$ 4,267 equal to the required contribution for the year.

#### (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are



not recognized as disbursements by the City until used or paid. The City's approximate liability for earned sick leave termination payments payable to employees at June 30, 2006, primarily related to the General Fund was \$ 2,000. This liability has been computed based on rates of pay in effect at June 30, 2006.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 5,000
	Emergency	3,706
	Tax Increment Financing	4,418
	Capital Projects:	
	2002 Housing	21
		<u>13,145</u>
Capital Project:		
Community Dreams	Special Revenue:	
	Local Option Sales Tax	<u>7,500</u>
Special Revenue:		
Playground	Special Revenue:	
Structure	Local Option Sales Tax	<u>38,750</u>
Capital Project:		
Sidewalk/Tree	Special Revenue:	
Replacement	Tax Increment Financing	<u>13,250</u>
Capital Project:		
2005 Housing	Special Revenue:	
	Tax Increment Financing	<u>25,000</u>
Enterprise:		
Water	General	15,052
	Special Revenue:	
	Tax Increment Financing	<u>23,970</u>
		<u>39,022</u>
Enterprise:		
Sewer	Enterprise:	
	Water	<u>3,079</u>
Total		<u>\$ 139,746</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(7) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Commitments and Contingencies**

- A. The City has agreed to guaranty 50% of the Edgewood Child Care and Development Center's United States Department of Agriculture loan, which has a balance of \$ 138,594 at June 30, 2006.
- B. The City has entered into a preconstruction agreement with the Iowa Department of Transportation for improvements to Highway 3 within the city limits (Union Street). The City cost of these improvements is estimated to be \$ 273,000 of which \$ 52,340 had been disbursed by June 30, 2006.
- C. The City is making the following payments on two loans for the Edgewood Board of Economic Development:

	<u>Annual Payment</u>	<u>Loan Balance at June 30, 2006</u>	<u>Rate</u>
	\$ 7,515	28,770	6.79%
	20,423	100,000	8.02
<b>Total</b>	<u>\$ 27,938</u>	<u>128,770</u>	

**(9) Deficit Balances**

The Capital Projects, 2005 Housing and Union Street Highway 3 had deficit balances of \$ 48,916 and \$ 52,340, respectively, at June 30, 2006. The deficit balances were a result of project costs incurred prior to availability of funds. The 2005 Housing Fund deficit will be eliminated upon receipt of Community Development Block Grant funds. The Union Street Highway 3 deficit will be eliminated when the project is complete and prearranged financing is received.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EDGEWOOD  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:	\$ 181,386	0	181,386	174,850	174,850	6,536
Property tax	155,145	0	155,145	154,055	154,055	1,090
Tax increment financing	57,367	0	57,367	66,928	66,928	(9,561)
collections	2,872	0	2,872	3,072	3,072	(200)
Other city tax	12,267	4,548	16,815	7,470	7,470	9,345
Licenses and permits	234,352	210,193	444,545	304,794	579,794	(135,249)
Use of money and property	86,819	186,954	273,773	284,094	284,094	(10,321)
Intergovernmental	10,124	0	10,124	7,994	10,494	(370)
Charges for service	162,894	2,719	165,613	25,600	535,600	(369,987)
Special assessments	903,226	404,414	1,307,640	1,028,857	1,816,357	(508,717)
Miscellaneous						
Total receipts	903,226	404,414	1,307,640	1,028,857	1,816,357	(508,717)
Disbursements:						
Public safety	95,318	0	95,318	96,670	104,040	8,722
Public works	130,253	0	130,253	143,085	143,085	12,832
Health and social services	900	0	900	900	900	0
Culture and recreation	116,616	0	116,616	90,360	135,360	18,744
Community and economic						
development	447,171	0	447,171	258,143	755,643	308,472
General government	71,670	0	71,670	72,268	72,268	598
Debt service	47,419	0	47,419	45,194	47,694	275
Capital outlay	218,640	0	218,640	61,000	401,000	182,360
Business type activities	0	665,357	665,357	604,996	755,996	90,639
Total disbursements	1,127,987	665,357	1,793,344	1,372,616	2,415,986	622,642
Deficiency of receipts	(224,761)	(260,943)	(485,704)	(343,759)	(599,629)	113,925
under disbursements	82,728	210,470	293,198	345,000	345,000	(51,802)
Other financing sources, net						
Excess (deficiency) of receipts and						
other financing sources over (under)	(142,033)	(50,473)	(192,506)	1,241	(254,629)	62,123
disbursements and other financing	468,435	126,327	594,762	553,790	553,790	40,972
sources						
Balances beginning of year	\$ 326,402	75,854	402,256	555,031	299,161	103,095
Balance end of year						

See accompanying independent auditor's report.

## CITY OF EDGEWOOD

### Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$ 1,043,770. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF EDGEWOOD  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
As of and for the Year Ended June 30, 2006

	Special Revenue					Capital Projects			
	Library Memorial	Special Assessment Notes	Employee Benefits	Emergency	Playground Structure	Debt Service	2002 Housing	Sidewalk Tree Replacement	Union Street Highway
<b>Receipts:</b>									
Property tax	\$ 0	0	6,985	3,706	0	37,202	0	0	0
Use of money and property	40	0	0	0	0	0	0	0	0
Intergovernmental	0	0	0	0	0	0	33,523	0	20,422
Special assessments	0	10,124	0	0	0	0	0	0	0
Miscellaneous	324	0	0	0	12,759	0	0	0	6,594
<b>Total receipts</b>	<b>364</b>	<b>10,124</b>	<b>6,985</b>	<b>3,706</b>	<b>12,759</b>	<b>37,202</b>	<b>33,523</b>	<b>0</b>	<b>27,016</b>
<b>Disbursements:</b>									
<b>Operating:</b>									
Culture and recreation	0	0	0	0	46,710	0	0	0	0
Community and economic development	0	0	0	0	0	0	0	0	0
General government	0	0	13,099	0	0	0	0	0	0
Debt service	0	10,337	0	0	0	37,082	0	0	0
Capital outlay	0	0	0	0	0	0	33,536	32,401	100,363
<b>Total disbursements</b>	<b>0</b>	<b>10,337</b>	<b>13,099</b>	<b>0</b>	<b>46,710</b>	<b>37,082</b>	<b>33,536</b>	<b>32,401</b>	<b>100,363</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>364</b>	<b>(213)</b>	<b>(6,114)</b>	<b>3,706</b>	<b>(33,951)</b>	<b>120</b>	<b>(13)</b>	<b>(32,401)</b>	<b>(73,347)</b>
<b>Other financing sources:(uses):</b>									
Loan proceeds	0	0	0	0	0	0	0	21,750	0
Operating transfers in	0	0	0	0	38,750	0	0	13,250	25,000
Operating transfers out	0	0	0	(3,706)	0	0	(21)	0	0
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,706)</b>	<b>38,750</b>	<b>0</b>	<b>(21)</b>	<b>35,000</b>	<b>25,000</b>
<b>Net change in cash balances</b>	<b>364</b>	<b>(213)</b>	<b>(6,114)</b>	<b>0</b>	<b>4,799</b>	<b>120</b>	<b>(34)</b>	<b>2,599</b>	<b>(48,347)</b>
<b>Cash balances beginning of year</b>	<b>5,172</b>	<b>213</b>	<b>10,558</b>	<b>0</b>	<b>0</b>	<b>722</b>	<b>34</b>	<b>2,980</b>	<b>(569)</b>
<b>Cash balances end of year</b>	<b>\$ 5,536</b>	<b>0</b>	<b>4,444</b>	<b>0</b>	<b>4,799</b>	<b>842</b>	<b>0</b>	<b>5,579</b>	<b>(48,916)</b>
<b>Cash Basis Fund Balances</b>									
Reserved:	\$ 0	0	0	0	0	842	0	0	0
Debt service									
Unreserved:									
Special revenue funds	5,536	0	4,444	0	4,799	0	0	0	0
Capital projects funds	0	0	0	0	0	0	0	5,579	(48,916)
<b>Total cash basis fund balances</b>	<b>\$ 5,536</b>	<b>0</b>	<b>4,444</b>	<b>0</b>	<b>4,799</b>	<b>842</b>	<b>0</b>	<b>5,579</b>	<b>(48,916)</b>

See accompanying independent auditor's report.

## Schedule 2

CITY OF EDGEWOOD  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End Year
General obligation notes:							
Corporate purpose	Mar 22, 2003	4.00%	\$ 410,000	321,524	0	38,018	283,4,
	Dec 20, 2004	3.93	35,000	35,000	0	30,300	4,
	Jun 20, 2004	3.93	35,000	4,700	0	4,700	
Sidewalk and trees	Feb 23, 2006	4.00	21,750	0	21,750	0	21,
Total				\$ 361,224	21,750	73,018	309,
Special assessment note:							
Street improvements	May 1, 2001	5.00%	\$ 63,526	20,668	0	6,906	13,
Urban renewal tax increment financing (TIF) revenue notes:							
	May 6, 2003	5.33%	\$ 125,000	112,500	0	12,500	100,
	Jun 15, 2004	6.79	50,000	45,721	0	4,442	41,
	Sep 28, 2005	4.00	100,000	0	100,000	26,000	74,
				\$ 158,221	100,000	42,942	215,
Revenue notes:							
Sewer refinancing	Nov 15, 2002	3.40%	\$ 190,000	100,250	0	32,150	68,
Revenue bonds:							
Water	Sep 28, 2005	3.00%	\$ 171,448	0	171,448	10,000	161,
Lease-purchase contract:							
Truck/plow	Feb 22, 2002	6.05%	\$ 67,895	14,351	0	14,351	

See accompanying independent auditor's report.



CITY OF EDGEWOOD  
BOND AND NOTE MATURITIES  
June 30, 2006

Year Ending June 30,	General Obligation Notes				Special Assessment Notes	
	Corporate Issued Mar 22, 2003	Purpose	Corporate Issued Dec 20, 2004	Sidewalk and trees Issued Feb 23, 2006	Street Improvements Issued May 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	4.00%	\$ 15,993	3.93%	\$ 4,700	5.00%	\$ 7,2
2008	4.00	16,633	-	-	5.00	6,5
2009	4.00	17,298	-	-		
2010	4.00	17,990	-	-		
2011	4.00	18,710	-	-		
2012	4.00	19,458	-	-		
2013	4.00	20,236	-	-		
2014	4.00	21,046	-	-		
2015	4.00	21,888	-	-		
2016	4.00	22,763	-	-		
2017	4.00	23,674	-	-		
2018	4.00	67,817	-	-		
Total		\$ 283,506		\$ 21,750		\$ 13,7

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Notes				Revenue Notes		Re Issue Interest Rates
	Issued May 6, 2003	Purpose	Issued Jun 15, 2004	Issued Sep 28, 2005	Issued Nov 15, 2002	Amount	
	Interest Rates	Amount	Interest Rates	Interest Rates	Interest Rates	Amount	
2007	5.33%	\$ 12,500	6.79%	4.00%	3.40%	\$ 33,250	3.0
2008	5.33	12,500	6.79	4.00	3.40	34,850	3.0
2009	5.33	12,500	31,446	4.00	-	-	3.0
2010	5.33	12,500	-	4.00	-	-	3.0
2011	5.33	12,500	-	-	-	-	3.0
2012	5.33	12,500	-	-	-	-	3.0
2013	5.33	12,500	-	-	-	-	3.0
2014	5.33	12,500	-	-	-	-	3.0
2015	-	-	-	-	-	-	3.0
2016	-	-	-	-	-	-	3.0
2017	-	-	-	-	-	-	3.0
2018	-	-	-	-	-	-	3.0
2019	-	-	-	-	-	-	3.0
2020	-	-	-	-	-	-	3.0
Total		\$ 100,000		\$ 74,000		\$ 68,100	

See accompanying independent auditor's report.

CITY OF EDGEWOOD  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year Ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Homeland Security:			
Assistance to Firefighters			
Grant Program	97.044	-	\$ 50,350
Indirect:			
U.S. Department of Housing			
and Urban Development:			
Iowa Department of Economic			
Development:			
Community Development Block			
Grants/State's Program	14.228	02-HSG-079	33,477
		05-HSG-060	89,455
		04-WS-027	208,510
			<u>331,442</u>
Environmental Protection Agency:			
Iowa Department of Natural			
Resources:			
Capitalization Grants for			
Drinking Water State			
Revolving Funds	66.468	FS-22-05-DWSRF-002	161,448
Total			<u>\$ 543,240</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Edgewood and is presented in conformity, with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

# Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Edgewood, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 15, 2006. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting because we were not able to satisfy ourselves as to the distribution by fund of the total fund balance of the governmental and proprietary funds at July 1, 2005. Except as previously discussed, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Edgewood's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Edgewood's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Edgewood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Edgewood and other parties to whom the City of Edgewood may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Edgewood during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 15, 2006

*Dietz, Donald & Company*  
Dietz, Donald & Company, CPAs  
FEIN 42-1172392

# Dietz, Donald & Company

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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Edgewood, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City of Edgewood's major federal program is identified in Part 1 of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Edgewood's management. Our responsibility is to express an opinion on the City of Edgewood's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Edgewood's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Edgewood's compliance with those requirements.

In our opinion, the City of Edgewood complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Edgewood is responsible for establishing and maintaining effective internal control over compliance with

requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Edgewood's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Edgewood and other parties to whom the City of Edgewood may report, including federal awarding agencies and pass-through entities. The report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

November 15, 2006

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FEIN 42-1172392

CITY OF EDGEWOOD  
SCHEDULE OF FINDINGS  
June 30, 2006

Part I - Summary of the Independent Auditor's Results:

- a) A qualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles; because we were unable to satisfy ourselves as to the distribution by fund of the total fund balances of the governmental and proprietary funds at July 1, 2005.
- b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements and that reportable condition was a material weakness.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) No reportable conditions in internal control over the major program were disclosed by the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f) The audit disclosed no findings that are required to be reported in accordance with Section .510(a) of Circular A-133.
- g) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- i) The City of Edgewood did not qualify as a low-risk auditee.



CITY OF EDGEWOOD  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. One individual at the City has custody of receipts, has the ability to prepare and sign checks, and performs all record keeping and reconciliation functions for all bank and investment accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected city officials whenever possible to provide additional control through review of financial transactions and reports.

CITY OF EDGEWOOD  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Part III: Findings for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

CITY OF EDGEWOOD  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06    Certified Budget - Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.
- IV-B-06    Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06    Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06    Business Transactions - No business transactions between the City and City officials or employees were noted.
- IV-E-06    Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06    Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-06    Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-06    Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.
- IV-I-06    Financial Condition - The Capital Projects, 2005 Housing and Union Street Highway 3 Funds had deficit balances of \$ 48,916 and \$ 52,340, respectively, at June 30, 2006.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response - The deficit balances were a result of project costs being incurred prior to availability of funds. The deficits will be eliminated upon receipt of a federal grant and loan proceeds.

Conclusion - Response accepted.